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[1](#)1. (SBU) SUMMARY: Gasunie CEO Marcel Kramer told us that the Nord Stream natural gas pipeline enhances European energy security. GONL-owned Gasunie has a 9 percent stake in Nord Stream. Kramer described his positive experience partnering with Gazprom, Nord Stream's controlling shareholder. He said Gazprom is motivated by business logic rather than political goals. Kramer implied that Gasunie would not have taken a stake in Nord Stream if the project were not environmentally sound and a net plus for Europe's energy security. END SUMMARY.

GASUNIE'S CHARM OFFENSIVE

[1](#)2. (SBU) Dutch gas transportation company Gasunie hosted ambassadors from Poland, Denmark, and Finland, Charge and Econoff at its Groningen headquarters on June 27 (the ambassadors of Estonia, Latvia, Lithuania, and Sweden attended a similar event in February 2008). Gasunie arranged these briefings to assuage concerns from countries that the Nord Stream pipeline, which will transport Russian natural gas to Germany via the Baltic Sea, will bypass. (Note: Gasunie, founded in 1963 after the discovery of natural gas in the Netherlands, split into two companies in 2005 as part of the Dutch energy sector's aggressive "unbundling." The gas trading arm, Gasterra, was spun off while the Dutch Government bought out Shell's and Exxon's combined 50 percent stake in Gasunie, giving it full ownership over the gas pipeline business. Gasunie's management and the GONL maintain an arms-length relationship, CEO Kramer claimed. He went on to report that Finance Minister Wouter Bos, representing the GONL at Gasunie's June 25 annual meeting, said the company should act as if it is publicly traded and earn a "reasonable return of around 7 percent" for the government. Post has e-mailed Gasunie presentation materials to EUR/WE. End note.)

FILLING EUROPE'S GROWING NATURAL GAS SUPPLY GAP

[1](#)3. (SBU) Kramer described Europe's challenge of ensuring

adequate gas supply and competition despite falling domestic production rates. (Note: Almost 20 percent of gas consumed in Europe comes from the Netherlands, where production is in long-term decline. End note.) He said Gasunie's strategic target of connecting to diverse international sources of natural gas (ref A) will help address this challenge. He noted the urgency of attracting new gas flows to the Netherlands because gas from Norway "was not coming as quickly as hoped." Kramer predicted that Russia will inevitably increase its share of Europe's gas market, although mostly in Germany and Eastern Europe as "Russian gas becomes less competitive as it moves west." Kramer pointed to Russia's own growing energy consumption and corresponding rise in domestic gas prices as key factors going forward. Kramer predicted that by 2015 the economics will have changed so much (i.e., the price of gas in Europe less transport costs versus the price in Russia) that Russian gas producers will keep more gas at home. He said that in recent meetings Gazprom senior executives conceded that they needed to "get their upstream investment into shape" to boost supply to meet both domestic and European demand.

INSIGHTS FROM WORKING WITH GAZPROM

14. (SBU) Kramer said Gasunie's involvement in the Nord Stream pipeline "yielded additional insights" into Gazprom and the Russian energy sector. He said Gasunie had taken Gazprom seriously since the 1990s, which positioned it well to beat out "three or four other European countries" to become the fourth shareholder in Nord Stream. Kramer said that Gasunie evaluated the deal to acquire a 9 percent

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stake as it would any other major investment. He added that the GONL gave "positive feedback" to the deal as a way of retaining a "significant role" for the Netherlands in Europe's energy equation. (Note: Gasunie also bought BEB Transport -- the gas transport division of a German Shell/Exxon joint venture -- in November 2007. BEB's pipelines tie into Gasunie's existing network, linking the Netherlands to northern Germany, Berlin, Denmark, and the landing points for Norwegian gas. End note.) Kramer said that although cost estimates for constructing the Nord Stream pipeline have risen sharply, the latest figure of EUR 7 billion (USD 11.1 billion) "seems reasonable". He added that delays in Norway's pipeline infrastructure investment have freed up pipe-laying capacity and reduced the costs.

15. (SBU) Gasunie's participation in Nord Stream was announced during Prime Minister Balkenende's November 2007 visit to Russia (ref B). Kramer described the negotiations with Gazprom, which lasted from June 2006 to June 2008, as "businesslike" with "financially skillful, competent counterparts" who approached the situation with a purely corporate Gazprom perspective. Kramer mentioned two difficult negotiating points. First, how to craft voting rules for Gasunie as the smallest shareholder. For example, Gasunie insisted on unanimity among the four shareholders (Gazprom, e.ON Ruhrgas, BASF-owned Wintershall, and Gasunie) on the pipeline's environmental aspects. Second, convincing Gasunie's other partners in the BBL pipeline to allow Gazprom an option to purchase a minority stake. (Note: The Bacton Balgzand Line (BBL), operational since 2006, transports natural gas from the Netherlands to the UK. Gasunie has a 60 percent share, Belgian gas transport company Fluxys and German energy giant e.ON Ruhrgas each have 20 percent shares. If Gazprom exercises its option to buy a 9 percent stake in BBL, the shares will come from Gasunie, leaving it with a majority 51 percent. According to Kramer, Gazprom has not yet decided whether to exercise the option. Gasunie had to explain to Gazprom that BBL meets EU rules, meaning that

the shareholders only own and operate the pipeline and cannot dictate who runs gas through it. A Gazprom stake in BBL would not automatically make it a conduit for Gazprom product. End note.)

¶6. (SBU) Kramer shared further impressions of working with Gazprom. He called the first Nord Stream board meeting he attended "normal" -- they made decisions on procuring pipes, coatings, and pipe-laying barges. Kramer noted that Gazprom initially treated as the pipeline's construction as a purely technical challenge. He said they had little awareness of the need to speak to people along the pipeline route, perhaps in the "Russian tradition," but their thinking has since "matured significantly." He trumpeted Nord Stream's efforts to remedy its public relations problems and listen to concerns seriously, despite "some along the pipeline's route using the project for political purposes." For example, he said Nord Stream's environmental impact studies measure up to domestic Dutch standards but the consortium first went about them in a "technocratic" way, consulting only with each country's regulators. Now, according to Kramer, Gazprom understands the need to discuss the environmental issues openly in order to build public trust. Kramer said that through this experience Russian engineers have "become acquainted with a different way approaching the environment," and he has also seen a "new generation of managers come into Gazprom." In that spirit, Gasunie and Gazprom have teamed up with others to establish the Energy Delta Institute in the Netherlands. Gasunie is trying to attract more foreign (particularly Eastern European) students to the Institute, which offers courses on natural gas operational and regulatory subjects. CDA said post would put Gasunie in touch with the Marshall Center in Garmisch, Germany, given its long track record providing training programs for Eastern European and other officials.

COMMENT

¶7. (SBU) Gasunie is trying hard to dispel fears that Nord Stream is a tool to strengthen Russia's grip on Europe's

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energy security. CEO Kramer portrayed the project as ambitious but realistic and Gazprom as driven by commercial concerns, not political ones -- although some of his comments about Gazprom sounded optimistic. Gasunie is smart to leverage the Dutch reputation as transparent, trustworthy business people to burnish Nord Stream's image, but Gasunie will not reassure Nord Stream's detractors on its own. END COMMENT.

Gallagher